

Pursuant to Article 44 paragraph 2 point 3 of the Central Bank of Montenegro Law (OGM 40/10, 46/10) and Article 51 of the Decision on Minimum Standards for Credit Risk Management in Banks (OGM 22/12, 55/12), the Council of the Central Bank of Montenegro, at its session held on 28 November 2012, passed the following

GUIDANCE

on the manner of recording loan loss provisions, value adjustments and written off items of the on-balance sheet assets when determining opening balance in banks' business books for 2013

1. Subject matter. This Guidance shall regulate in more detail the manner of recording loan loss provisions, value adjustments and written off items of the on-balance sheet assets when determining opening balance in banks' business books for 2013.

Bank shall value financial assets until end of 2012 in accordance with the Decision on Minimum Standards for Credit Risk Management in Banks (OGM 60/08, 41/09) and Decision on Temporary Measures for Credit Risk Management in Banks (OGM 64/09, 87/09, 70/10, 2/12). Pursuant to these regulations, asset items shall be valued by their classification into corresponding classification category and/or sub-category and allocation of adequate loan loss provisions for such items. Receivables classified into classification category E – loss shall be removed from the balance sheet records and further kept in off-balance sheet records until their collection or permanent write off. Accounting of changes in value of financial assets shall be presented using the chart of accounts for banks, prescribed by the Decision on Chart of Accounts for Banks (OGM 68/08) – (hereinafter: the former chart of accounts).

Pursuant to the Decision on Minimum Standards for Credit Risk Management in Banks (OGM 22/12, 55/12), banks shall, starting from 1 January 2013, value financial assets and calculate value adjustment (allowances for impairment) for balance sheet asset items and/or provisions for off balance sheet items using own methodologies. Allowance for impairment of balance sheet asset items and provisions for off-balance sheet items shall be recorded at the accounts from the chart of account prescribed by the Decision on Chart of Accounts for Banks (OGM 55/12) – (hereinafter: the new chart of accounts).

The Guidance shall govern the manner of recording written off receivables and loan loss provisions allocated in accordance with the prevailing regulation until 31 December 2012, as well as the manner of recording of value adjustments (allowances for impairments) for balance sheet asset items when determining opening balance in banks' business books for 2013.

2. Recording of written off receivables. When the opening balance for 2013 is recorded, the amount of written off receivables/loans (principal – account 9610 from the former chart of accounts and interest 9615 from the former chart of accounts) brought forward on the off balance sheet records shall be carried forward from the off-balance sheet records to appropriate accounts in the balance sheet records. Interest that was recorded off balance in the old chart of accounts at the account 9620 shall be kept off

balance and recorded in the new chart of accounts at the account 9620 – Accrued interest.

Upon recording opening balance, the bank shall identify receivables for which the conditions are met for their removal from the balance of the bank and receivables from Article 49b paragraph 1 of the Decision on Minimum Standards for Credit Risk Management in Banks. The bank shall write off receivables for which those conditions are met and further keeps them internally until the finalization of the collection process. The internal records can be kept as a turnover at memorandum account 9960, without influencing the balance at the account 9960 (without presenting it within form BS_VB – Off balance sheet records).

2.1. Recording of loan receivables classified into classification category “E” – loss). Receivables that bank has classified in accordance with the prevailing regulation into classification category E – loss and recorded off balance sheet as at 31 December 2012 shall be transferred into the balance sheet (opening balance as at 1 January 2013) in the amount of transfer to the off balance by closing account in off balance and booking it at appropriate accounts in the balance sheet as follows:

Debit		Credit	
Old account	New account	Old account	New account
9610 (closing of account)	group 1200,1250,1270,1280	9960 (closing of account)	3025

Account 3025 – Provisions for estimated losses under regulatory requirement is the account that is prescribed in the new chart of accounts within group of accounts “Capital and reserves”.

For these items, the bank shall book value adjustment by debiting the account 3025, and crediting the value adjustment account as opening balance in general ledger. These items shall be kept in the balance sheet until the repayment of debt or meeting the conditions for their removal and further recording in the internal records of the bank.

Starting from 1 January 2013, the bank shall apply accounting treatment set forth in Article 24 of the Decision on Minimum Standards for Credit Risk Management in Banks (OGM 22/12, 55/12) for all asset items for which value adjustment is determined (including also those items the bank has classified into classification category E).

2.2. Recording of interest on non-performing assets. Suspended interest that is recorded in accordance with the prevailing regulation in the off balance as at 31 December 2012, except subsequently accrued interest on non-performing assets (accrued interest), shall be transferred in the balance sheet in the amount of transfer to the off-balance as follows:

Debit		Credit	
Old account	New account	Old account	New account
9615 (closing of account)	group 1900	9960 (closing of account)	3025

For these items, the bank shall book value adjustment by debiting the account 3025, and crediting value adjustment account as opening balance in general ledger.

Starting from 1 January 2013, for assets classified into classification categories D and E (non-performing assets), further accrual of interest shall be recorded on-balance, and recording of value adjustment shall be performed in accordance with Article 24 of the Decision on Minimum Standards for Credit Risk Management in Banks (OGM 22/12, 55/12).

3. Recording of allocated provisions for estimated loan losses. When determining opening balance for 2013, loan loss provisions that the bank has allocated in accordance with the prevailing regulation as at 31 December 2012 shall be recorded as follows:

Credit	
Old account	New account
1209,1269,1279,1289...2930	3025 (balance sheet + off balance)

Credit	
Old account	New account
1909	3025

Banks shall use the opening balance (1 January 2013) of the account 3025. Credit side of this account represents the brought forward amounts of allocated provisions for estimated losses on balance sheet assets items, fees for loan losses on off-balance sheet items allocated based on classification of loan into classification category E and provisions on suspended interest. Debit side of this account shall be the sum of value adjustments and loss provisions.

Account 3025 as at 01.01.2013

Debit	Credit
	<ul style="list-style-type: none"> • provisions for estimated losses on balance sheet assets items • fees for loan losses on off-balance sheet items • provisions based on classification of loan into classification category E (100%) • provisions on suspended interest (100%)

The opening balance of the account 3025 is capital reserve recorded in the balance sheet within the group of accounts 3000 - Capital and Reserves. This balance shall be increased only by the amount of cover the lacking reserves against capital, which means that it will be the same amount in the current year in all reporting periods. The banks shall submit, within the reports to be submitted to the Central Bank of Montenegro, also the information on provisions for estimated losses under regulatory requirement.

The amount of lacking provisions for estimated losses under regulatory requirement (individually by classification categories) after 1 January 2013 and/or as at reporting date, shall be the difference between calculated reserves for estimated losses under regulatory requirement reduced by already established provisions for estimated losses under regulatory requirement (balance of the account 3025) and value adjustments thereof.

Bank shall not have lacking provisions if total required provisions for estimated losses under regulatory requirement (under all classification categories) reduced by the amount of already established provisions under regulatory requirement (account 3025) are lower than the sum of value adjustment.

When recording provisions for estimated losses under regulatory requirement, in the manner determined under this Guidance, the account 3026 – Lacking amount of provisions for estimated losses under regulatory requirement shall not be used.

4. Recording of value adjustments/provisions in the moment of transition to new chart of accounts (opening balance in the balance sheet). When applying the provisions of the Decision on Minimum Standards for Credit Risk Management in Banks (OGM 22/12, 55/12) which regulate the valuation of asset items, the banks shall value balance sheet asset items and off balance sheet items and calculate value adjustments (allowances for impairment) for balance sheet asset items and/or provisions for off-balance sheet items using the balance as at 31 December 2012. Banks shall record the calculated value adjustments/provisions as opening balance under new chart of accounts as at 1 January 2013 by debiting the account 3025 and crediting the corresponding account of value adjustment for balance sheet asset positions and/or provisions for losses on off balance sheet assets.

Debit	Credit
3025	Value adjustment for balance sheet asset positions/Provisions for losses on off balance sheet assets (account 2930)

5. Recording of new value adjustments/provisions. Recording of the account of value adjustments for balance sheet assets and/or provisions for off balance sheet items calculated upon the opening balance in business books for 2013 shall be performed as follows:

- a) if the amount of calculated value adjustment for balance sheet asset positions/provisions for losses on off balance sheet assets is higher than the balance at the accounts of value adjustment/provisioning, the recording of any subsequent calculation (amount of additional provisions under IAS) shall be performed as follows:

Debit	Credit
Allowances for impairment and provision expenses (sub-group of accounts 5610-5631)	Value adjustment for balance sheet asset positions/Provisions for losses on off balance sheet assets (account 2930)

- b) if the amount of calculated value adjustment for balance sheet asset positions/provisions for losses on off balance sheet assets is lower than the

balance at the accounts of value adjustment/provisioning for losses (off balance sheet), the recording of any subsequent calculation (reversal of portion of provisions under IAS) shall be performed as follows:

Debit	Credit
Value adjustment for balance sheet asset positions/Provisions for losses on off balance sheet assets (account 2930)	Allowances for impairment and provision expenses (sub-group of accounts 5610-5631)

6. Entering into force of the Guidance. This Guidance shall come into force on the eighth day following that of its publication in the Official Gazette of Montenegro.

THE COUNCIL OF THE CENTRAL BANK

Decision number 0101- 4014/38-5
Podgorica, 28 November 2012

**CHAIRMAN
G O V E R N O R,
Radoje Žugić, m.p.**